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This Notice Expires 1 November 1976

MANAGEMENT

10 October 1975

THE DIRECTOR'S STATEMENT CONCERNING
MANAGEMENT OF THE AGENCY

1. This notice is published in accordance with the Director's desire to keep employees informed of matters concerning management of the Agency.

2. The attachment contains the major portions of a prepared statement by the Director before the House Select Committee on Intelligence on 6 August 1975. The statement outlines the basic authorities by which the Agency conducts its business, the organization of the Agency to carry out its mission, and a detailed outline of the planning, programming, and budgeting cycle by which funds are made available to the Agency and the methods used to control such funds. This in effect describes "management" within the Agency.

3. Additional copies of the attachment can be obtained from the CIA Library, Room 1-E-41 Headquarters Building, and may be removed from Agency premises by employees openly identified with the Agency.

FOR THE DIRECTOR OF CENTRAL INTELLIGENCE:

JOHN F. BLAKE
Deputy Director
for
Administration

Attachment

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Statement
by
W. E. Colby
Director of Central Intelligence
before
House of Representatives
Select Committee on Intelligence
August 6, 1975

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The National Security Act of 1947 established the National Security Council and, under it, the Central Intelligence Agency. The Agency's mission was described, under the direction of the National Security Council, in the following terms: to advise the Council; to make recommendations for the coordination of the intelligence activities of the departments and agencies; correlation, evaluation, and dissemination of intelligence; performance of services of common concern centrally; and, in what was deliberately a broad grant of authority, the performance of "such other functions and duties related to intelligence affecting the national security as the National Security Council may from time to time direct." The Act specifically provided that the Agency have no police, subpoena, or law enforcement powers or internal security functions. The departments and other agencies of the Government, however, would continue to collect, evaluate, correlate, and disseminate departmental intelligence, which should be open to the inspection of the Director of the CIA.

CIA was conceived as a central agency drawing upon the other members of the Intelligence Community, but having a unique capability to perform certain of the missions expected. Its predecessor, the Office of Strategic Services during World War II, was the model upon which it developed, and it included intelligence collection, intelligence analysis, intelligence production, and covert activities in the political and paramilitary fields. The techniques of secret operations and on many occasions the specific individuals and organizations with whom such operations must be conducted are the same as those which provide secret intelligence. In the earliest years of CIA, there was an attempt to conduct these in an organizational compartment separate from the other work of CIA, but General Walter B. Smith found that this produced friction, duplication and inefficiency, so he merged the functions of collection with these other "functions and duties."

* * *

The major work of the CIA is carried out in the four main directorates. . . . In order, their main functions are the analysis and production of finished intelligence, the work of the Directorate of Intelligence; the conduct of our

clandestine overseas operations and the supporting structures necessary in the United States, in the Directorate of Operations; a special Directorate of Science and Technology which combines the analysis of foreign information in these important fields with research and development of new technical systems for acquiring or analyzing information; and the last, the Directorate of Administration, with the normal administrative services of communications, personnel, finance, logistics, etc. Many of these "normal" aspects of administration, of course, need to be done in somewhat special ways in support of the clandestine operations and requirements of the Agency.

. . . Intelligence is by far our major function these days, and . . . it is broken down into the collection of the types of information noted, the processing of this information both technically and intellectually by our corps of analysts, and the final production of finished intelligence, i.e., the product which goes to the customer. Whereas most of our final product does depend upon classified sources and consequently is classified, we have made an effort to publish in unclassified form such material as we could. . . . These formal publications, and the much larger number of classified ones. . . , are supplemented by the briefings we provide within the Executive Branch and to a number of the Committees of the Congress. In these briefings, we do not discuss the details of our operations or the specifics of our sources, but we do use the most sensitive intelligence in order to draw together all information available to the United States Government on some foreign question. This was the original concept of central intelligence, and it has worked with great effectiveness in practice. It means, however, that when you examine one of our publications, and especially our unclassified publications, the information therein also depends upon the other military and civilian agencies contributing to our total knowledge. It would be misleading to indicate that the intelligence result available to us depended only on the investment made in the CIA itself. The management functions of CIA are those normal to any large organization, supplemented by CIA's and my role in the Community as a whole. CIA also carries out centrally certain services of common concern to the Community where it is more efficient to conduct these under one roof than to establish duplicative organizations in each member agency.

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The covert action mission has been mentioned before, of course. . . . CIA was heavily engaged in this activity during the days of massive confrontation of the 1950's and the period of counterinsurgency in the 1960's. In recent years, however, the change in the world situation has been such that CIA's activities in this field have dropped to a very low percentage of our efforts. I do believe it important, however, . . . that the United States retain this potential, as I could easily envisage further changes in the world situation which could once again make it important that our Government be able to help some group in a foreign land struggling against a hostile or extremist group there, which could threaten the safety and well being of the United States; for example, through terrorism or even nuclear proliferation. I believe it important that our Government in such cases have, as I have stated before, some option between a diplomatic protest and sending the Marines.

. . . The CIA has been the target of a veritable torrent of sensational charges. This is not solely a recent phenomenon, although it certainly has enormously increased in these past few months. The Rockefeller Commission examined one of these areas, i.e., whether the CIA was engaged in a "massive illegal domestic intelligence operation." . . . The Commission stated that: "A detailed analysis of the facts has convinced the Commission that the great majority of the CIA's domestic activities comply with its statutory authority. Nevertheless, over the 28 years of its history, the CIA has engaged in some activities that should be criticized and not permitted to happen again." The Commission said that some of these activities were initiated or ordered by Presidents, either directly or indirectly, some fell within doubtful areas, and some were plainly unlawful. The Commission noted that the Agency's own recent actions have gone far to terminate the activities upon which its investigation was focused.

I think that conclusion fairly states the true situation with respect to the Agency. It has indeed done some things over its history that it should not have done and that under current guidelines it will not repeat. . . . In a community the size of CIA, I believe it highly likely that a number of wrong things would be done over 28 years. When one adds the enormous challenges given to CIA, the climate of opinion of the country during past periods, and the secrecy within

which CIA's activities must be conducted, I believe that the instances of wrongful action were truly few and far between, both in the domestic field and in the other areas of charges. That they were not more is due, I believe, to the fundamental integrity and loyalty to American principles of the employees of CIA over these years. These employees have worked with little or no applause and under a great number of sensational attacks; they have worked in danger, on intellectually difficult problems, and at the leading edge of technology. CIA personnel have invented new ways of obtaining intelligence. They have boldly and independently challenged interpretations of foreign events and weapon systems by other departments. They have conceived and executed many quiet, modest and effective actions in support of U.S. policy throughout the globe. They are proud of their contribution to their country; they seek anonymity rather than public appreciation, but they deserve the country's thanks rather than the abuse they are receiving today. . . .

CIA BUDGET POLICIES AND PROCEDURES

The CIA has duties, responsibilities, and authorities that differ in a number of ways from other U.S. Government agencies, . . . and our financial procedures for dealing with the outside world are unusual. But, however unconventional and secret our activities may be, we are very conventional in our internal budgetary practices and our financial controls. . . . Many of the details . . . could as well describe any other Federal agency or department--although I am inclined to believe that we may be somewhat more conscientious about money matters than the average.

Our CIA budget system closely parallels that of all parts of the Federal Government. For any one fiscal year, planning, budgeting, approvals, appropriations, and execution extend over a three-year period. At any particular moment, we are therefore dealing with the current year, the upcoming Budget Year, and the subsequent Program Year. Our programs are developed internally, examined by OMB, submitted to the President for his decisions, and then submitted to Congress, where they are reviewed (and often cut) by the designated subcommittees of the Appropriations Committee in both House and Senate.

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PROGRAM PREPARATION

The budget cycle in CIA begins in January with the issuance by the Comptroller of the Program Call, calling for estimates of resources to be required during the fiscal year beginning 18 months hence and operating plans for the fiscal year beginning 6 months hence. When the new fiscal year goes into effect, these lead times will extend to 21 and 9 months respectively. In January 1975, for example, a call was issued for program plans for fiscal year 1977 and operating plans (based on the previously-prepared program plan) for fiscal year 1976.

The Program Call goes from the Comptroller to the Deputy Directors. They distribute it to subordinate echelons with such supplementary guidance and instructions as they deem appropriate and establish schedules for the submission of data to allow time for their review and for compilation of an aggregate presentation to be submitted to the Comptroller. During February, March, and April, program managers revise their previous estimates for the fiscal year about to begin and develop preliminary estimates for the fiscal year following, on the basis of discussions with other interested Agency components and Community elements. Entries into the computer data base are made during this time by components throughout the Agency. The computers produce printouts which array the data for the current year and the next two years for review. . . .

Computer programs are submitted in May to the Deputy Directors, who review the requests of their subordinate units and conduct "hearings" with program managers to validate the estimates. This permits each Deputy Director to develop an aggregate program which he can support and defend. After this review process has been completed, the computer data base is revised to reflect the Deputy Director's decisions. The aggregate program for the directorate is compiled and submitted to the Comptroller early in June for the Program Review.

PROGRAM REVIEW

The smallest unit in our computerized accounting system is the FAN (financial analysis number) account. There currently are about 2,100 FAN accounts, established

to insure availability of planning and control data for management. For in-depth analysis by upper-level management, however, we look not at FAN accounts but at the next higher level of aggregation--Resource Packages, which currently number about 275.

The Resource Package is the central element of the internal CIA resource allocation system. Each Resource Package is a unit of activity to which resources are assigned for the achievement of a particular purpose or set of integrally related purposes. A Resource Package may be an organizational element, an operational activity, a project, a function, or a group of related functions. It is chosen so as to give us the most meaningful way of examining the package, its activities, and its resource requirements.

For the Program Review, components provide a brief summary description of each Resource Package, followed by descriptions of major activities within the package, identification of major products and services, and major consumers. Each package submission also includes an evaluation of the accomplishment of each activity in the package through the previous year. Evaluations are required to relate accomplishments to objectives and, to the extent practical, to the resources assigned. Disappointments, failures, or shortfalls and corrective actions taken or to be taken are described, as well as notable successes achieved. Reasons for year to year differences are spelled out, and any resource implications for the future which will follow from program decisions are identified.

The computerized accounting system arrays the financial data on all Resource Packages and summarizes it in three different ways:

--Organizationally. By Office, Division, or Staff and by the four directorates which are our major subelements.

--Functionally. By the nature of the activity--for example, clandestine collection, overt collection, information processing, production of finished intelligence, and communications.

--And by "object classes" similar to those used throughout the Government to designate salaries, fringe benefits, travel, utilities, and so forth.

The Comptroller reviews the personnel positions and dollars requested for each Resource Package, considering the functions performed and projected in relation to past performance and to relative importance as a part of the broader directorate and Agency programs. The Agency program is then compiled as a package-by-package summary that includes both the positions, and dollars requested by the components and the positions and dollars recommended for each package by the Comptroller. The Comptroller often recommends position and dollar levels lower than requested by the directorates. The composite program is in book form that this year runs to 201 legal-sized pages including both statistical data and textual treatment of the problems and issues for the two years under discussion. In mid-July, it is presented to the Management Committee which is made up of the Deputy Directors and the Heads of Independent Offices reporting directly to me.

The Management Committee reviews and discusses the issues with me, often debating the recommendations of the Comptroller. The Deputy Directors justify and defend their original requests or agree to adjust them in light of overall requirements. Within a day or two after this meeting, I meet with the Comptroller and his staff for a detailed review of the resources requested and recommended. Final decisions are reached during this review and become the directorate "marks" for the fiscal years under consideration, in the current case FY 1976 and 1977.

The Comptroller immediately prepares a financial guidance letter from me to each of the Deputy Directors. These letters establish the program levels for funds and positions within which the directorates must operate during the operating year and make plans for the budget year. Usually the appropriation for the operating year and OMB guidance for the program year will not have been received before these letters are issued and the instructions have to be qualified accordingly. The obligation rate for the operating year is controlled by the continuing resolution passed by the Congress until the appropriation has been received, while the levels established in the financial guidance memoranda are used as the basis for preparation of the OMB budget.

In addition to establishing position and fund levels, the financial guidance letters place restrictions upon the authority of the Deputy Directors to reprogram between

approved programs; identify certain key programs representing major investments or activities in which I have a particular interest; require supplemental reporting on certain specifically described types of actions; and assign responsibility and due dates for the review and study of organizational or substantive issues. They also contain a paragraph requiring that I be notified in advance of any planned endeavors that carry a significant risk of embarrassment to the Government in general or the Agency in particular. The latter provision was first spelled out in this memorandum, drafted by me when I was Executive-Director, which also details a number of the other general conditions that govern program execution. It replaced an earlier system of levels of approval determined by the amount involved, as in many cases a \$5 thousand expenditure could be more dangerous than a routine \$5 million one.

During August the components revise the computer data base and the supporting narrative as necessary to incorporate the newly-made decisions into the development of budget estimates for the next year. These are submitted early in September to the Comptroller, who compiles the Agency budget request for submission to OMB by 1 October. The OMB examiner reviews the Agency budget, selecting issues for further examination. During late October and November he conducts detailed hearings on each selected issue with the operating officials of the responsible components. He can and does ask for and receive detailed information on any aspects of our activity which interest him. He then makes his recommendations to his own chain of command, and the review and decision process proceeds through OMB to the President and thence to Congress in the course of the year.

THE OPERATING YEAR

While budgets and program plans for the future are being prepared and reviewed, we are of course also executing a budget already presented to Congress. Each month, the computer system produces reports which show the status of obligations to date and provide projections to year end based on that experience. These reports are reviewed by the Comptroller; after the first quarter of the fiscal year has passed and some trends have been established, the Comptroller and his staff meet monthly with the Deputy Directors and the Director of Finance. At these meetings,

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the overall status of obligations is compared with pre-planned rates, reasons for unexpected deviations are examined, and potential shortages and surpluses in individual components are identified and discussed.

Throughout the year, new requirements develop--because of a change in world conditions, a new technological development, or a change elsewhere in the U.S. Government such as the passage of new legislation affecting the rules under which Federal Departments and Agencies conduct their programs. Legislative requirements are clearly obligatory; last year, for example, the resource system had to adjust to a limit on travel expenditures that was imposed and subsequently lifted and to the new demands of the Freedom of Information Act. Some world events also present us with unanticipated financial requirements that are nondiscretionary--for example, the turn of events in Southeast Asia this spring. Other new requirements are examined in terms of their consistency with the Agency's charter, their desirability, their priority in competition with other demands, and their urgency. Those which emerge from the examination as the most worthy of immediate consideration of all counts are then looked at in light of funds that can be made available within the limits of existing policy guidance from the White House and our Congressional oversight committees.

. . . The CIA has somewhat more need for financial flexibility than the average Government agency. We are confronted from time to time with requirements or opportunities of great urgency; if we are offered a document of tremendous intelligence value, we cannot tell the seller to return next year when we have had an opportunity to budget for it. And we cannot ask the Congress to vote a supplemental appropriation without attracting exactly the sort of unwelcome attention from abroad that we are anxious to avoid. We can sometimes cover relatively small requirements by curtailing expenditures on other, lower priority activities. But our budgets are tightly drawn and leave us relatively little room for maneuver. Thus, arrangements have been in existence for many years with OMB and the Appropriations Committees of the Congress to permit us to obtain additional funds for purposes approved at the appropriate policy levels when we believe additional money is necessary and OMB concurs. These are, of course, funds appropriated in accordance with law, and our oversight committees are kept informed on a current basis of all transactions from them.

After each monthly Comptroller's meeting, the Comptroller advises me of the current status of our financial accounts, his recommendations for funding urgent new needs, and the concurring or differing opinions of the four Deputies. I make the final decision on any large sum of money, and that decision is conveyed to the Comptroller and the Deputies and reflected in the financial accounting system.

Our need for financial flexibility is, of course, a reflection of our need for program flexibility. We cannot simply adhere to a rigid plan when the world around us is changing, but neither can we permit ourselves to simply react to events without frequently taking an overall look at ourselves. Each directorate therefore conducts program reviews during the year, in which each Deputy Director sits down with his subordinates and discusses progress to that time and plans for the remainder of the year. The timing of these reviews varies--the Operations Directorate and the Intelligence Directorate have semi-annual reviews, the Science and Technology Directorate follows a quarterly schedule, and the Administration Directorate has its conclave every two months. I am kept informed of all significant developments and proposed changes in approved plans.

CONTRACTING AND PROCUREMENT

A substantial share of the Agency's budget goes for procurement. The normal procurement authorities pertaining to the Agency are the Federal Property and Administrative Services Act of 1949. In addition, the CIA Act of 1949 authorizes the expenditure of funds without regard to law and regulation for objects of a confidential, extraordinary, or emergency nature, subject only to personal certification by me. As indicated in the headquarters regulation, . . . the accounting procedures within the Agency for our confidential funds are every bit as rigid as those for what we call "vouchered" funds. The distinction lies entirely in the fact that I am authorized by law not to provide the detailed certifying documents to authorities outside CIA for our confidential expenditures. . . . The regulation . . . imposes on every Agency employee a responsibility for bringing any instance which appears to involve possible misuse of funds to the attention of either his own chain of command or the Inspector General.

A number of management controls have been established within the Agency to insure that our contracting is carried out according to the intent of Congress. Briefly, these are:

- Publication of procurement regulations and handbooks to be followed by our contracting and technical personnel in effecting procurements.
- The establishment of technical requirements and review boards both at the office and directorate levels to review proposed procurements.
- Establishment of an Agency Contract Review Board to examine the total procurement process prior to the contract award of all major procurements.
- Examination and audit of industrial contractors' proposals and cost records to insure reasonable prices and protection of Agency funds.
- Management audit and review of the entire Agency procurement process by the Inspector General's Audit Staff.

Responsibility for production and services procurements, Federal Supply Schedule items, and purchase orders is centralized in the Procurement Division in the Office of Logistics. For research and development procurements, the Director of Logistics has established a decentralized procurement system consisting of contracting teams serving each directorate. A Procurement Management Staff functions as the overall point of coordination for the creation and maintenance of uniform policies and procedures; the chief of this staff serves as the Agency representative on various governmental committees concerned with procurement such as the Commission on Government Procurement and Executive Subcommittee of the Committee on Government Patent Policy.

The Agency is authorized to undertake procurements by formal advertising or by negotiation. Negotiation has normally been the most practicable method, given the nature of our business. We therefore place great emphasis on source selection procedures, emphasizing competition as much as practicable. Our list of qualified sources currently includes more than 2,200 contractors beyond those dealing in GSA Federal Supply Schedule items. In the last couple of years, over half our funded procurement actions

and about 30 percent of the total dollars obligated were on a competitive basis. Our contracts conform to all the legal requirements of the Armed Services Procurement Regulations. Contractor audits, carried out by the Commercial Systems Audit Division, apply the standards of the Defense Contract Audit Agency, with which we maintain direct liaison. . . . We are equally careful to conform to all Government rules and regulations when we carry out procurement actions on behalf of other Government agencies under the provisions of the Economy Act.

PROPRIETARIES

There is yet another area of our financial activities that has attracted some recent public attention and has been the subject of considerable misinterpretation. I refer to apparently commercial entities that are in reality controlled by the Agency--entities we call proprietaries. Such companies provide cover and support for clandestine activities and enable us to carry out administrative tasks discreetly.

Operating proprietaries are formed, operated, and eventually liquidated according to specific regulations and under close control by high Agency officials. All projects must be approved by the appropriate Deputy Director, and projects of special import also come to me for a further approval. For each project an administrative plan is required, which must have the concurrence of several of our highest Agency officials, including the General Counsel and the Director of Finance. These projects are subject to annual review and evaluation as part of our regular budgetary process. All expenditures and reimbursements must be approved by the senior operating and finance officers, and regular audits are performed by our audit groups.

A very few of our former proprietaries, such as Radio Free Europe and Air America, have been fairly large entities. However, the vast majority have been and are small, usually having fewer than ten employees. They are, of course, different from conventional business activity, in that their very purpose is concealment of Agency people or activities. They engage in activities of limited economic significance, purposely providing little or no competition with private enterprise. They must nevertheless appear to conform to normal business practice and to have the normal business accounts, contracts, etc. When they own property or assets,

appropriate secret trust agreements provide that the ultimate legal ownership remains with CIA. Proprietaries comply with all applicable Federal and State financial laws and regulations, including payment of proper taxes and fees and conformance with licensing and other legal commercial requirements.

Proprietaries use revenues to offset operating costs, but most have been unprofitable, requiring continued support through our regular budgetary process. Only two proprietaries ever made significant profits. One was Air America, now being disposed of, which provided cover and otherwise supported our efforts in Southeast Asia. Its net assets are being turned in to the Treasury. The other, remaining, is a financial enterprise which enables the Agency to administer certain sensitive trusts, annuities, escrows, and insurance arrangements without attribution to the Agency. It enables us to pay annuities to individuals whose links with the U.S. Government must remain secret. In both of these cases, in the past, profits were retained for use by the proprietary companies. By 1973, accumulated profits amounted to a considerable sum, so what was excess to likely requirements was reported to the Appropriations and Armed Services Committees and used to reduce the amount appropriated. Our General Counsel has ruled that this did not constitute the full appropriations process, however, so this procedure has been abandoned and subsequent profits have been and will be delivered to the Treasury.

I foresee a continuing need to use the proprietary mechanism to further accomplishment of Agency operations. In the past nine years, however, we have reduced the number of proprietaries by about 50 percent, and they will be limited to those situations where they are the only, or clearly the best, approach.

FINANCIAL PROCEDURES AND CONTROLS

To complete the picture of our internal mechanisms for handling financial transactions, I must touch briefly on the activities of the Office of Finance, the Audit Staff, and the General Counsel. It is the Director of Finance rather than the Comptroller who is responsible for most aspects of financial administration. We do not handle money loosely. We may procure the particular kind of

currency we need in somewhat unorthodox ways and deliver it in the "little black bag" so popular among fiction writers, but expenditures for even the most sensitive operations are backed up by an array of receipts, vouchers, certificates, etc. A key element of the Agency system for financial administration is the requirement that proper authority must exist for every transaction. Each transaction is subject to review and approval by an "Approving Officer"; in addition, all claims and vouchers for payment and all accounting for advances must be certified as correct, in accordance with Agency regulations and in conformance with applicable Federal and State laws, by an authorized Finance Certifying Officer independently appointed by the Director of Finance. Finance is responsible for the accounting system which reflects the status, use, and accountability for all funds, property, and other assets entrusted to the Agency. This system is consistent with the principles and standards prescribed by the Comptroller General. Finance also handles all payrolling and disbursing functions, purchases foreign currencies, and audits contracts with commercial firms.

Financial and selected program reviews of Agency components and activities are conducted by the Audit Staff, which is organizationally part of the Office of the Inspector General but reports directly to me rather than to the Inspector General. Made up largely of people hired from outside the Agency, one-third of whom are Certified Public Accountants, the Audit Staff conducts annual reviews of all major activities at CIA Headquarters and in the field. Smaller activities are audited on a two- or three-year cycle. The audits are conducted in conformance with policy guidelines set forth in Federal Management Circular 72-3, General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and standards issued by the American Institute of Certified Public Accountants. The audits determine whether financial operations are properly conducted and in compliance with applicable laws and regulations, whether operations are being conducted efficiently and economically, and whether desired objectives are being achieved.

The Office of the General Counsel also plays an important role in the financial processes of the Agency. Proposed expenditures are submitted to that Office by Finance

Certifying Officers and others for legal rulings, which are written at the rate of hundreds each year. In this respect the General Counsel serves the same role for Agency Certifying Officers as does the Comptroller General for Certifying Officers in other agencies.

As I hope all of the foregoing makes clear, we are careful with the taxpayer's money. Our budgeting system works well. Our internal control systems are strong and getting stronger. In accordance with recommendations of the Rockefeller Commission, I am currently in the process of expanding the staffs of both the Inspector General and the General Counsel. . . . The fact that we do have certain exemptions from normal Government procedural requirements makes me acutely aware of my unusual responsibilities and especially careful to keep the Agency's financial house in order.

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DETAILS OUT

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